

**IVACO
INDUSTRIES
LIMITED**

**ANNUAL REPORT
1977**



Nine-Year Financial Summary

(in millions except per share amounts)

Operating Results

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
Net sales	\$166.8	136.0	103.0	150.7	90.2	53.9	43.2	27.6	11.0
Depreciation and amortization	\$ 6.8	6.1	3.6	3.3	2.4	1.5	1.2	0.7	0.3
Earnings before income taxes	\$ 14.6	7.2	6.4	37.6	14.2	8.9	7.5	4.6	2.2
Provision for income taxes	\$ 4.6	1.6	1.7	16.5	5.8	4.1	3.7	2.3	1.1
Net earnings (Note 1)	\$ 9.8	5.4	4.5	20.4	8.1	4.6	3.7	2.1	1.0
Per common share (Notes 1 & 2)	\$ 0.99	0.58	0.48	2.37	0.98	0.61	0.52	0.39	0.25
Return on sales	% 5.9	4.0	4.4	13.6	9.0	8.6	8.5	7.5	9.2

Financial Position

	<u>1977</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>	<u>1973</u>	<u>1972</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>
Current assets	\$105.9	100.6	88.6	76.8	44.0	35.3	28.1	12.1	4.3
Current liabilities	\$ 69.5	69.5	59.5	45.9	25.6	22.2	18.4	7.4	3.0
Working capital	\$ 36.4	31.1	29.1	30.9	18.4	13.1	9.7	4.7	1.3
Net additions to fixed assets (Note 3)	\$ 19.7	7.4	16.0	32.4	14.6	6.9	8.3	2.5	0.9
Total assets	\$224.9	203.5	188.0	160.4	102.9	70.2	52.9	24.5	9.3
Long-term liabilities	\$ 30.8	32.2	33.5	29.8	18.6	14.7	7.2	2.2	2.1
Shareholders' equity	\$ 95.6	74.2	70.8	67.3	48.1	26.5	21.8	8.9	2.6
Dividends	\$ 2.6	1.9	1.9	1.7	0.4	0.2	0.2	—	—
Book value per common share (Note 2)	\$ 8.53	7.82	7.43	7.05	4.89	3.14	2.57	1.66	0.65

- NOTES: 1. Net earnings and net earnings per common share are after providing for minority interests and before including an extraordinary gain in 1975.
2. Representing on a retroactive basis the effect of a two-for-one stock split as of July 3, 1973.
3. Including in 1977, \$7.9 with respect to the Lockport Felt Division.

The Annual Meeting of the Company will be held on May 26, 1978 at 10:00 a.m. at Le Salon Viger of the Château Champlain Hotel, Montreal, Quebec.

Cover Picture

Steelmaking: four billets are cast simultaneously at L'Orignal, Ontario.

Financial Highlights

	1977 (in thousands)	1976 (in thousands)
Sales	\$166,765	135,994
Net Earnings	\$ 9,765	5,449
Net Earnings per Common Share	\$ 0.99	0.58
Net Additions to Fixed Assets	\$ 19,671*	7,398

* Including \$7,948 with respect to
the Lockport Felt Division

Officers

Isin Ivanier
Chairman

Paul Ivanier
President

Sydney Ivanier
Senior Vice-President

Michael Herling
Senior Vice-President
and Secretary

Jack Klein
Senior Vice-President

John Loveridge
Vice-President

M. R. Cairns
Vice-President

Albert A. Kassab
Vice-President

George Goldstein
Vice-President

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Manufacturing Plants	Inside Back Cover
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Warehouses and Sales Offices	Inside Back Cover

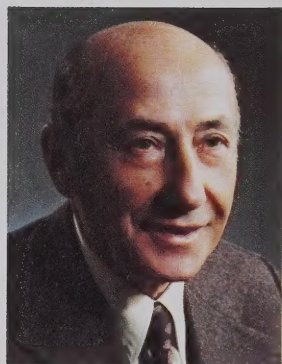
HEAD OFFICE:
800 Ouellette Street, Mariville, Quebec

TRANSFER AGENT AND REGISTRAR:
The Royal Trust Company in Halifax,
Montreal, Toronto, Calgary and Vancouver

AUDITORS:
Touche Ross & Co.,
Montreal, Quebec

SHARES LISTED:
Montreal Stock Exchange
Toronto Stock Exchange

To Our Shareholders:



Isin Ivanier
Chairman



Paul Ivanier
President

1977 was a year in which your Company posted strong increases in sales, net earnings and net earnings per share. It was also a year in which your Company was able to attain highly satisfactory results even though conditions in the steel industry world-wide were at a generally low level.

The results in brief were:

- Sales increased 23% to \$166.8 million, compared with \$136 million the previous year.
- Net earnings increased 79% to \$9.8 million, compared with \$5.4 million in 1976.
- Net earnings per share increased 71% to 99 cents, compared with 58 cents in the previous year.
- Working capital increased by \$5.4 million during the year and stood at \$36.4 million as at December 31, 1977.

Some of the more noteworthy accomplishments at Ivaco during the past year included the completion of expansions at several of the Company's divisions which are discussed in more detail in the "Ivaco Story" section of this year's annual report. In brief they were:

- enlargement of the billet reheat furnace at our rolling mill at L'Orignal, Ontario.
- start of installation of a new "Retarded Cooling" system at Ivaco Rolling Mills at L'Orignal which will be completed in mid-1978.
- completion of a new nail manufacturing plant at Tonawanda, New York and start of construction of additional nail capacity at Warrenton, Virginia.

- installation of increased wire drawing and wire galvanizing capacity at Marieval, Quebec.
- expansion of fastener production capacity at Marieval, Quebec and Ingersoll, Ontario.
- completion in February 1978 of a natural gas pipeline spur at Marieval, Quebec, which will allow for the conversion from the use of propane gas to natural gas and will reduce energy costs to the Marieval operations.

The single largest expansion in 1977 occurred in the Fourdrinier part of the Company's operations with the acquisition of the Lockport Felt Division in November.

This acquisition had a total purchase price of \$12 million of which \$4.1 million was for working capital and \$7.9 million was for fixed assets. In payment, the Company issued \$2.8 million of notes, obtained a term bank loan of \$3.3 million, and the balance of \$5.9 million was paid from the cash resources of the Company.

When your Company first decided to diversify into the field of Fourdrinier fabrics in 1973 it was with the idea that once this group made the technological and other changes necessary to enable it to produce a high quality product from synthetic fibres, that it would become a leader in its industry and play an increasingly more significant part within Ivaco's group of companies. Now that these changes have been completed and the Lockport Felt Division has been added, Ivaco has



Interim Report
to
Shareholders
for
the Six Months
ended
June 30, 1977

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IVACO INDUSTRIES LIMITED
800 QUELLETTE STREET
MARIEVILLE, QUEBEC

IVACO INDUSTRIES LIMITED

Consolidated Statement of Earnings — Unaudited
For The Six Months Ended June 30, 1977
(in thousands except as indicated*)

	Six Month Period Ended June 30		Three Month Period Ended June 30	
	1977	1976	1977	1976
Net sales	\$82,573	\$67,829	\$44,343	\$37,930
Cost and expenses exclusive of items listed below	68,040	57,777	36,582	32,497
Depreciation	2,819	2,537	1,404	1,285
Amortization	503	485	249	249
Interest on long-term liabilities	1,765	1,930	903	958
Interest on short-term borrowings	1,987	1,480	1,047	686
(Gain) loss on disposal of fixed assets	(3)	(526)	(3)	136
	75,111	63,683	40,182	35,811
Investment income	165	541	39	191
	74,946	63,142	40,143	35,620
Earnings before income taxes and minority interests	7,627	4,687	4,200	2,310
Provision for income taxes	2,657	1,226	1,500	492
Minority interests	133	100	57	47
	2,790	1,326	1,557	539
Net earnings	\$ 4,837	\$ 3,361	\$ 2,643	\$ 1,771
Net earnings per common share	\$0.53*	\$0.36*	\$0.29*	\$0.19*

NOTE: Provision for income taxes, for the six month period ended June 30, 1977, reflect a pro rata reduction of \$307 thousand or \$0.03* per share with respect to proposals contained in the Federal budget of March 31, 1977. These proposals provide for a reduction in calculating taxable income of 3% of the amount of inventory at the beginning of the taxation year.

IVACO INDUSTRIES LIMITED

Consolidated Statement of Changes in Financial Position — Unaudited
For The Six Months Ended June 30, 1977
(in thousands)

	1977	1976
WORKING CAPITAL, JANUARY 1	\$31,067	\$29,094
SOURCE OF FUNDS:		
Net Earnings	4,837	3,361
Charges to earnings not requiring the current outlay of funds —		
Minority interests	126	83
Depreciation and amortization	3,322	3,022
Deferred income taxes	272	1,717
Gain on disposal of fixed assets	(3)	(526)
Funds from operations	8,554	7,657
Issue of preferred shares, series "C"	15,000	—
Issue of capital stock on conversion of preferred shares	—	275
Decrease (increase) in mortgage and notes receivable	533	(242)
	24,087	7,690
APPLICATION OF FUNDS:		
Addition to fixed assets	4,237	1,156
Decrease in long-term liabilities	2,205	1,608
Conversion of preferred shares into common shares	—	275
Dividends — preferred	121	136
— common	818	812
Costs relating to the issue of preferred shares, series "C"	510	—
Other items	118	182
	8,009	4,169
INCREASE IN WORKING CAPITAL	16,078	3,521
WORKING CAPITAL, JUNE 30	\$47,145	\$32,615



**Rapport Interimaire
aux
Actionnaires
pour
les six mois
se terminant
le 30 juin 1977**

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LES INDUSTRIES IVACO LIMITÉE

800 RUE QUELLETTE
MARIEVILLE, QUÉBEC

LES INDUSTRIES IVACO LIMITÉE

État consolidé des résultats — non-vérifiés
pour la période de six mois terminée le 30 juin 1977
(en milliers excepté tel qu'indiqué*)

	Période de six mois terminée le 30 juin		Période de trois mois terminée le 30 juin	
	1977	1976	1977	1976
Ventes nettes	\$82,573	\$67,829	\$44,343	\$37,930
Coûts et frais à l'exclusion des postes ci-dessous	68,040	57,777	36,582	32,497
Amortissements des immobilisations	2,819	2,537	1,404	1,285
Autres amortissements	503	485	249	249
Intérêt sur dettes à long terme	1,765	1,930	903	958
Intérêts sur les emprunts à court terme	1,987	1,480	1,047	686
(Gain) perte sur réalisation d'immobilisations	(3)	(526)	(3)	136
	75,111	63,683	40,182	35,811
Revenu des placements	165	541	39	191
	74,946	63,142	40,143	35,620
Bénéfices avant impôts sur le revenu et intérêts minoritaires	7,627	4,687	4,200	2,310
Provision pour impôts sur le revenu	2,657	1,226	1,500	492
Intérêts minoritaires dans des filiales	133	100	57	47
	2,790	1,326	1,557	539
Bénéfice net	\$ 4,837	\$ 3,361	\$ 2,643	\$ 1,771
Bénéfice net par action ordinaire	\$0.53*	\$0.36*	\$0.29*	\$0.19*

NOTE: Pour la période de six mois terminée le 30 juin, 1977, considérant les propositions comprises dans le budget fédéral au 31 mars 1977, la provision pour impôts sur le revenu reflète une réduction au pro rate de \$307 mille soit \$0.03* par action. Ces propositions permettent une réduction du revenu imposable de 3% de la valeur des stocks du début de l'année fiscale.

LES INDUSTRIES IVACO LIMITÉE

État consolidé de l'évolution de la situation financière — non-vérifié
pour la période de six mois terminée le 30 juin 1977
(en milliers)

	1977	1976
FONDS DE ROULEMENT AU 1er JANVIER	\$31,067	\$29,094
PROVENANCE DES FONDS		
Bénéfice net	4,837	3,361
Dépenses n'entraînant pas de sortie de fonds —		
Part des actionnaires minoritaires	126	83
Amortissements	3,322	3,022
Impôts sur le revenu reportés	272	1,717
Gain sur aliénation d'immobilisations	(3)	(526)
Fonds provenant de l'exploitation	8,554	7,657
Émission de capital-actions privilégiées, série "C"	15,000	—
Émissions de capital-actions lors de la conversion d'actions privilégiées	—	275
Diminution (augmentation) de l'hypothèque et billets à recevoir	533	(242)
	24,087	7,690
UTILISATION DES FONDS:		
Nouvelles immobilisations	4,237	1,156
Diminution de la dette à long terme	2,205	1,608
Conversion d'actions privilégiées en actions ordinaires	—	275
Dividendes — actions privilégiées	121	136
— actions ordinaires	818	812
Coût d'émission de capital — actions privilégiées, série "C"	510	—
Autres éléments	118	182
	8,009	4,169
AUGMENTATION DU FONDS DE ROULEMENT	16,078	3,521
FONDS DE ROULEMENT AU 30 JUIN	\$47,145	\$32,615

placed itself in the position where today it is a "complete clothing" supplier to the paper industry and is now able to supply the requirements of all the positions of the papermaking machines.

During the year, your Company successfully placed \$15 million in Series C preferred shares and thus established additional funds for future expansion and acquisition.

In 1978 Ivaco will continue to expand so that it can meet increasing customer demand and take advantage of significant market opportunities. Some of these expansions which have been undertaken recently are:

- a new fastener plant near Toronto which will produce specialty nuts in a broad range of sizes and types. Completion will be in the third quarter of 1978.
- expansion of production capacity for synthetic wet felts at the Starkville, Mississippi plant of the Lockport Felt Division which will be completed in the fourth quarter of 1978.

Your Company recently announced that it will issue \$45 million in debentures which will be placed with The Prudential Insurance Company of America. Of this amount \$20 million will be in Canadian funds at 10% interest and \$25 million will be in U.S. funds at 9 $\frac{1}{4}$ % interest. The debentures will have sinking fund provisions of \$500 thousand for year one through three, \$3.8 million from year four to fourteen, and the balance of \$1.7 million will be paid in the last year. The proceeds will be used to prepay medium and long-term debt of \$30 million and the balance will be used for future expansion and acquisition.

It is interesting to note that a recently published forecast for the United States projects that real economic growth in that country will be between 4.5% to 5% during 1978, whereas one of Canada's leading chartered banks has predicted that the Gross National Product in Canada will rise by only 3.3% in 1978 compared to an increase of 2.6% in 1977. The United States now accounts for more than 60% of your Company's sales and we expect the main thrust of Ivaco's growth to occur there during 1978.

There has been strong demand for your Company's products throughout the first quarter which has resulted in significantly increased sales compared with the same period of 1977.

In conclusion, and with particular emphasis on economic growth in the United States, our outlook for Ivaco for 1978 is optimistic and we expect continued growth in sales and earnings during the year.

Your Company will continue to be alert and responsive to opportunities for sound expansion and acquisition.

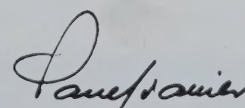
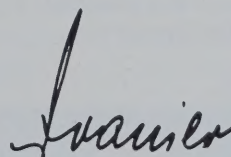
On behalf of the Board of Directors we would like to express our appreciation to our 3,000 employees for their dedication and continuing loyalty and to all our customers for their continued support.

Respectfully submitted on behalf of the Board of Directors.

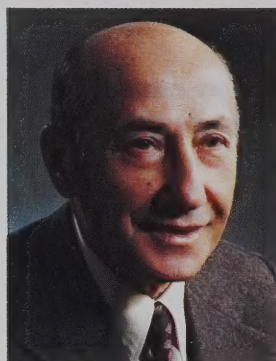
April 7, 1978

ISIN IVANIER
Chairman

PAUL IVANIER
President



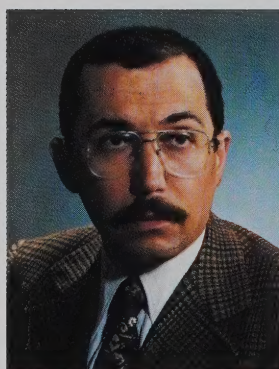
Board of Directors



ISIN IVANIER
Chairman
of the Company



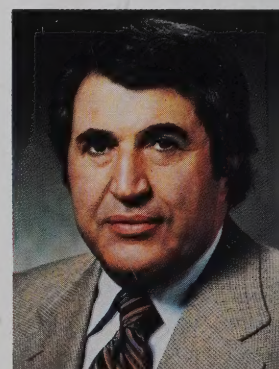
PAUL IVANIER
President
of the Company



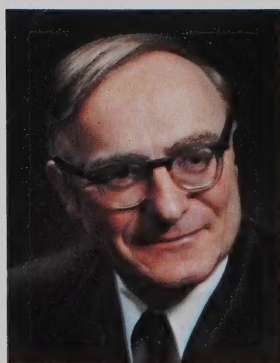
SYDNEY IVANIER
Senior Vice-President
of the Company



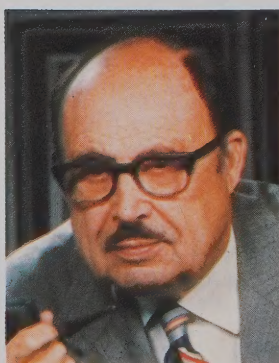
MICHAEL HERLING
Senior Vice-President
and Secretary
of the Company



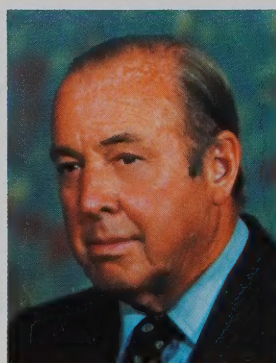
JACK KLEIN
Senior Vice-President
of the Company



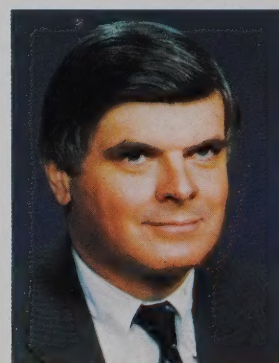
JOHN LOVERIDGE
President,
Ingersoll Machine
and Tool Company, Limited



EDWARD J. BUELL
Chairman,
The Niagara Wire
Weaving Company, Limited



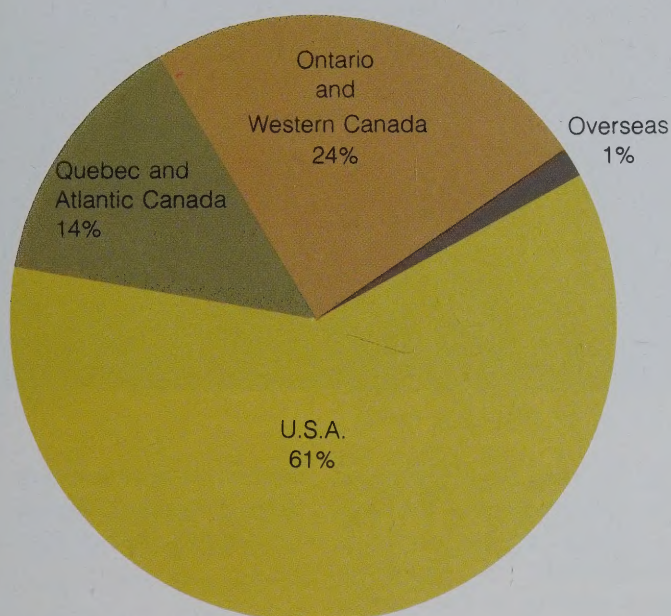
ALAN S. GORDON
Consultant,
Merrill Lynch,
Royal Securities Limited



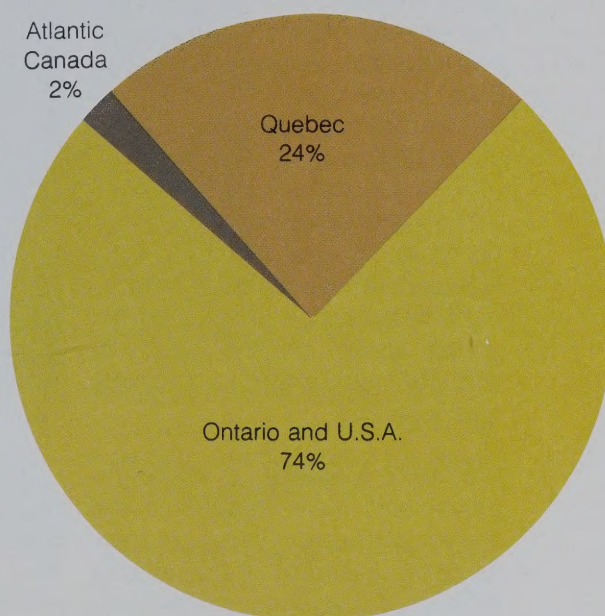
H. B. McNALLY, Q.C.
Partner, Byers, Casgrain,
McNally, Dingle,
Benn & Lefebvre

Geographical Distribution

Sales



Net Fixed Assets



The Ivaco Group

The Ivaco Group is comprised of manufacturing plants strategically located within the industrial heartlands of North America and operates within five main groups:

- The steelmaking group
- The wire group
- The fastener group
- The precision machined components and axles group
- The Fourdrinier and felt group

Today, Ivaco has 17 operating plants — of which 11 are in Canada and 6 are in the United States. The Company has 3,000 employees.

In each of Ivaco's five operating groups, there was an expansion of major consequence during 1977

oriented towards greater productivity and continued development of improved and sophisticated manufacturing technologies.

These internal expansion programs were particularly extensive in the United States, reflecting the somewhat higher rate of economic growth realized in that country in 1977, which is predicted to be sustained into the foreseeable future.

This year it is a pleasure to introduce for the first time the operations of the Lockport Felt Division, acquired late in the year.

Lockport's product line is a natural extension of Ivaco's strong position in the area of Fourdrinier fabrics

which are required by the paper industry for the manufacture of paper products. Lockport's specialization in both the wet felts and dryer felts results in Ivaco now being able to provide the "complete clothing" required by all paper manufacturers.

The following pages will provide a brief review of some of your Company's manufacturing operations with an emphasis on new productive capacity, technological changes and some of the steps taken for energy conservation and protection of the environment.

Steelmaking

Steelmaking is a vitally important dimension of your Company's current and future success. The facility has two electric furnaces with capabilities for melting from either scrap or pre-reduced iron ore pellets and has a rated annual capacity of 275,000 tons.

The steelmaking facility which is the major supplier of Ivaco's steel requirements is capable of producing a broad range of metallurgical grades and of reacting quickly to changes in production and delivery requirements.

In 1977 a number of major improvements were realized in the area of productivity and production flexibility, including improvements in the available range of metallurgical characteristics and billet qualities. Improved oxygen injection techniques which speed melt cycles were introduced in the latter half of the year.



Operators at the four strand billet caster.

During the year, your Company played an important role in the steel industry through its leadership in the development of sequence continuous casting of low carbon steel. This improved technique has resulted in appreciable benefits to costs and production.

We are pleased to say that billet

production for the month of March 1978 exceeded 28,000 tons — measurably greater than rated capacity.

1977 also saw improvements to the steelmaking division's fume emission control system which supports the Company's dedication to the protection of the environment.

Final materials are added while tapping the heat.





New reheat furnace accepts up to 46-foot billets.

Rolling Mill

The Ivaco Rolling Mills plant at L'Original, Ontario achieved new highs for tonnage and reliability of high quality wire rod production during the year. For the month of March 1978 production exceeded 36,000 tons of wire rods, which on an annual basis is greater than the rated capacity of 400,000 tons.

One significant increase in productivity resulted from the installation, late in the year, of a new billet reheat furnace for the rolling mill capable of accepting 46-foot long

billets. Previous maximum length was 32 feet. This completely new automated reheat system accepts billets pre-selected from specific heats and automatically weighs them to provide a more accurate yield control.

To accommodate the improved productivity at the front end of the mill, substantial improvements have been made in capacity for coiling and compacting. Individual wire rod coil weight has been increased to 2,450 pounds from 1,700 pounds. In addition to improving the rolling mill's productivity and yield, the heavier coils allow Ivaco users and outside wire rod customers to achieve productivity benefits from the increased coil weights.

Another important innovation completed late in 1977 was the installation of a heat exchanging facility at the billet reheat furnace. This "recuperator" recycles exhaust heat and gases to achieve a 25% energy saving in addition to substantially reducing emissions.

During the year, preparations began for modifications to our existing Morgan - Stelmor controlled cooling lines. These modifications will permit the production of slowly cooled low carbon and medium carbon wire rods. This new "Retarded Cooling" system permits direct

production of steel rods in the softer and lower tensile ranges, which are important characteristics for many wire drawing applications.

Slow cooled medium carbon wire rod provides for light cold heading capabilities which eliminates the expensive conventional batch spheroidizing process. Installation and run-in of the new system will be completed during the late summer of 1978.



Compacting wire rod.



Galvanized wire being coiled.

Wire & Wire Products

Wire is one of your Company's major products. It is produced in large volume in both the United States and Canada and is sold in a multitude of sizes, finishes and metallurgical characteristics. Your Company is also a large producer of finished wire products such as welded wire fabric, fencing and barbed wire.

Expansion of total capacity was



Installation of new wire drawing machines at Ingersoll.

realized at several locations during 1977.

Several important changes occurred at Marieville, Quebec. Wire annealing capacity was increased substantially. A new, high-capacity furnace for galvanized wire designed to add 60% to capacity and custom built by Company engineers was nearing completion at year end and is now in full operation. A new wire rod cleaning "pickling house" is nearing completion and operations will commence in the summer of 1978. Construction began late in the year for an acid regeneration installation adjacent to the new "pickle house". Acid cleaning of wire rods is accompanied by an iron build up in the spent acid and the new regeneration system

will permit the recovery of useful acid plus valuable iron salt crystals; these crystals are subsequently sold for use in municipal water treatment plants and in the manufacture of fertilizer. This system is expected to be operational by mid-year.

At New York Wire Mills, a second oil tempered spring wire production line was run-in early in 1977 and produced at high levels throughout the year. The new line can accommodate heavier product sizes.

At Ingersoll, Ontario, wire production was expanded significantly with the addition of new wire drawing capacity. This represents an important addition to the productive capability at Ingersoll.

Newly installed oil tempered spring wire line at Tonawanda.





Recently installed nail galvanizing line.

Nails

Your Company produces nails in four highly automated plants, two in Canada and two in the United States.

Two major expansions of nail making capacity occurred during the year, both in the United States.

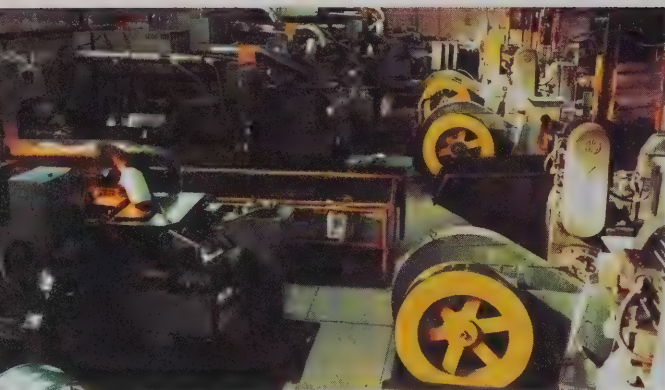
At Tonawanda, New York the largest nail plant in upper New York State was successfully run-in during the year. This plant which has ample space for heading, galvanizing, coating and packaging, was built adjacent to our existing wire mill and now forms an integral part of the New York Wire Mills opera-

tion. Improvements in industrial engineering techniques generated at our other nail making locations permitted a short design period and an equally impressive construction period, notwithstanding the blizzards and power failures of February 1977. The most modern acoustical methods in the building construction, machine layout and machine supports were paramount throughout the design considerations for the new mill.

The demand for nail products at the Warrenton, Virginia plant has exceeded the supply for some time. The continuing high level of construction and other business investment within ready transportation distance has warranted increasing productive capacity there. Construction of a new addition was nearing completion by year end and will be in production within the first half of 1978.

New nail machines at Tonawanda.





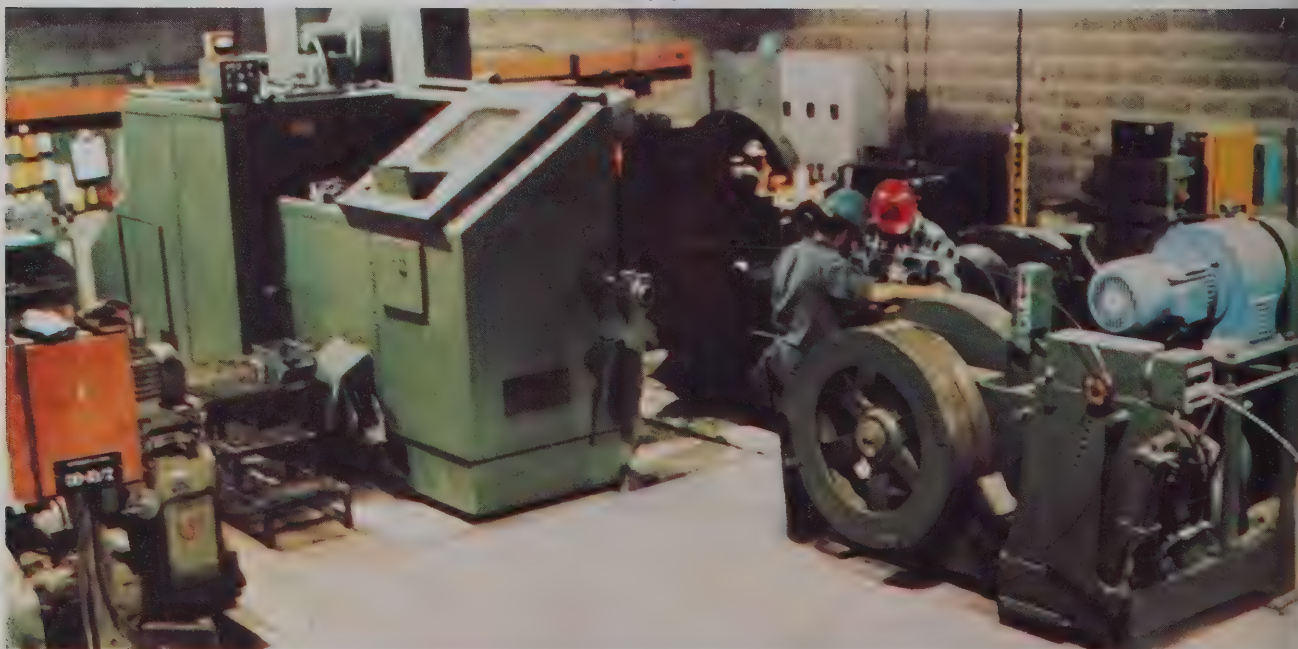
High speed boltmakers.

Fasteners

Your Company operates what is believed to be the largest bolt-maker in the world and has the largest concentration of high speed boltmakers. Additional equipment for the manufacture of standard and special fasteners and high strength structural washers was installed during 1977. These additions took place at the Mariville, Quebec and Ingersoll, Ontario plants and will provide both greater productive capacity and efficiency.

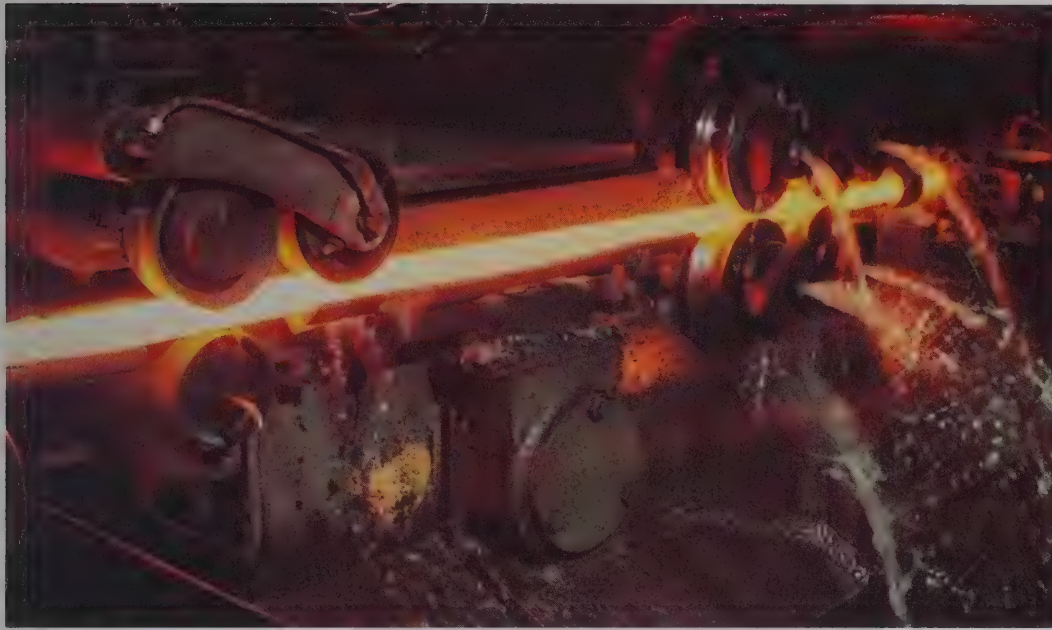


Heat treatment of fasteners.



Newly installed "double blow" boltmaker.

White hot steel bar enters specialized nut forming machine.



It is worthy to note that the Ingersoll Fasteners Division, which produces extensively for the rigid product quality demands of the automotive, construction and farm machinery industries, as well as for other large industrial consumers, was recently honored by an award from one of its major customers for excellence of product quality.

A general trend in customers' requirements to predominantly metric sizes of fasteners is expected to occur over the next few years and in anticipation of this both of the Company's fastener plants have started a gradual movement to production runs of some of the more common metric sizes.

Both fastener facilities maintain large and extensive inventory levels to allow for minimum delay in shipment to fastener customers throughout North America and elsewhere in the world.

Part of a high speed boltmaker line.



New "cutting tool" forms carbide dies.



Seaming Fourdrinier fabric.

Fourdrinier Fabrics

Your Company's continuing design, development and marketing approach in the area of Fourdrinier fabrics, has increased our share of the synthetic Fourdrinier fabric market to the point where we are now recognized as one of the leading suppliers of synthetic fabrics to the paper industry. It is now estimated that 78% of the world's paper is produced on polyester

fabrics as opposed to the traditional metal wires. It is this fact which has had a significant influence on your Company's action in the past year to continue to expand and improve the quality and productivity of the Fourdrinier operations.

In order to achieve this position, considerable modification of our equipment was undertaken during

the past two years. The automatic looms and finishing equipment in both the Quincy, Florida and Trois-Rivières, Quebec plants are undoubtedly among the most advanced in the industry.

The Fourdrinier group has recently become a source of pride for Ivaco.



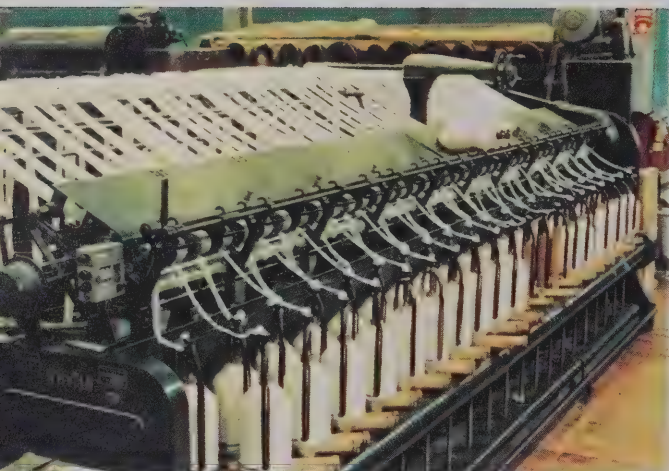
These automatic looms weave Fourdrinier fabrics.



Setting up a large loom.



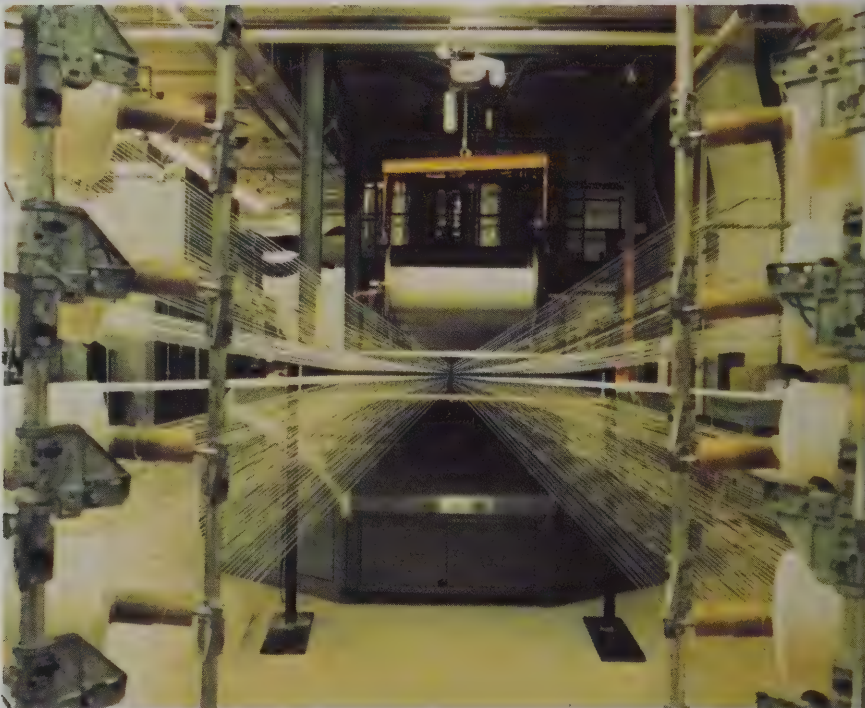
Continuous care during weaving of synthetic fabrics.



Preparing yarns for paper machine felts at Lockport.



Weaving a wet felt.



Loom for production of wet felt.

Feeding the yarn.





Seaming a paper machine felt.

Lockport Felt Division

Since its inception many years ago, the Lockport Felt Division has evolved into a major producer of both "wet felts" and "dryer felts" for the papermaking industry. The initial stage of papermaking takes place in the Fourdrinier section of the paper machine where the sheet of paper is formed and drainage occurs through the synthetic fabric. The sheet then passes into the pressed sections where additional moisture is removed and absorbed by the wet felts. The final stage of water removal occurs in the dryer sections where the sheet is transported by the dryer felts through a series of steam heated cylinders.

The Lockport Division routinely produces wet felts of up to 450 feet in length and 390 inches in width, and dryer felts up to 325 feet long and 390 inches wide.

Since each paper machine requires a felt peculiar to that machine for each of its several positions and the range of products manufactured,

the felts must be a "one of a kind", custom designed, and crafted to meet very specific criteria. Until a decade or so ago, most felts were made from wool, and were subject to the limitations of a natural fiber. Now, virtually all synthetic fiber is being used, enabling the felt designer to accurately tailor the felt product to the customer's requirements.

Your Company is committed to a continuous program of developing and producing improved felts designed to improve paper machine manufacturing efficiency.



Quality control: testing chemical components.



Quality control: testing tensile strength.



Quality control: testing with nuclear scanner.

Assembling steering components at Ingersoll.



Precision Machined Components

Precision machined components, heavy duty axles for trailers, and axles and suspension systems for very light vehicles are produced at Ingersoll, Ontario.

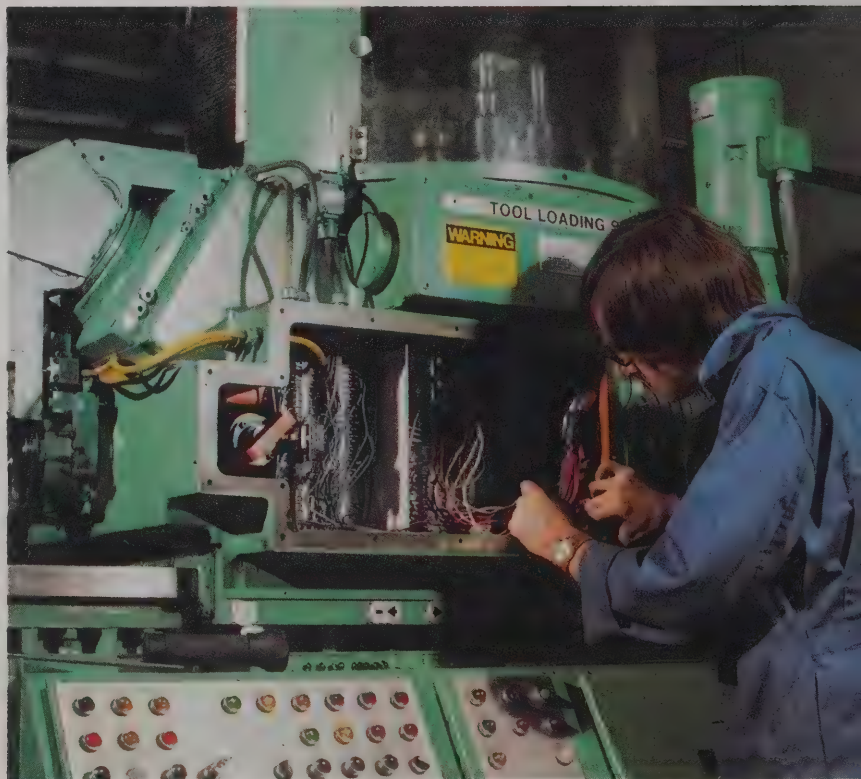
Components such as drive train parts, steering gears, and water pumps for the automotive, farm implement and construction machinery industries require modern and sophisticated machinery — including the most up-to-date numerical controlled machines. During the year just passed, Ingersoll added a new computer controlled machining center and thus significantly increased production capacity of precision machined parts. The Company is also active in production for the defense industry.

This division of your Company has been notably successful during the past year in increasing the volume of shipments of precision machined components to the automotive and heavy machinery industries, among others.



Truck axles ready for shipment.

Fine tuning new machining center.



Consolidated statement of earnings

For the year ended December 31, 1977

	1977 (in thousands)	1976 (in thousands)
Net sales	\$166,765	\$135,994
Costs and expenses exclusive of items listed below	139,078	116,973
Depreciation	5,856	5,193
Amortization	952	885
Interest on long-term liabilities	3,480	3,626
Interest on short-term borrowings	3,445	3,564
Gain on disposal of fixed assets	(274)	(557)
	152,537	129,684
Investment income	402	868
	152,135	128,816
Earnings before income taxes	14,630	7,178
Provision for income taxes		
Current	3,099	(484)
Deferred	1,460	2,088
	4,559	1,604
Net earnings before minority interests	10,071	5,574
Minority interests	306	125
Net earnings	\$ 9,765	\$ 5,449
Net earnings per common share	\$ 0.99	\$ 0.58

Consolidated balance sheet

As at December 31, 1977

Assets

Current:

Cash and certificates of deposit

Marketable securities (market value
1976 — \$4,844)

Accounts receivable

Income taxes recoverable

Inventories (Note 2)

Prepaid expenses

Current portion of income tax reductions

Income tax reductions — non-current

Fixed:

Land

Buildings

Machinery and equipment

Less: Accumulated depreciation

Construction in progress

Investments (Note 3)

Other assets:

Cost of investments in subsidiary companies
in excess of net assets at dates of
acquisition, less amortization

Sundry assets (Note 4)

1977	1976
(in thousands)	(in thousands)
\$ 4,440	\$ 1,175
—	5,554
26,628	19,858
—	832
71,630	72,732
1,133	484
2,112	—
105,943	100,635
631	2,492
1,043	1,010
25,529	21,412
107,248	93,386
133,820	115,808
29,575	23,986
104,245	91,822
2,194	528
106,439	92,350
5,866	1,063
3,188	3,458
2,867	3,457
6,055	6,915
\$224,934	\$203,455

On behalf of the Board:

Isin Ivanier, Director

Paul Ivanier, Director

Liabilities

Current:

	1977 (in thousands)	1976 (in thousands)
Bank indebtedness — partly secured	\$ 36,827	\$ 38,578
Accounts payable and accrued liabilities		
Trade	19,859	23,327
Directors	308	7
Dividends	392	60
Income taxes	2,712	—
Current portion of long-term liabilities	8,518	6,787
Current portion of deferred income taxes	895	809
	<u>69,511</u>	<u>69,568</u>
Long-term liabilities (Note 5)	30,838	32,186
	<u>26,336</u>	<u>24,711</u>
Deferred income taxes		
Minority interests:		
Preferred shares	91	91
Common share equity	2,600	2,737
	<u>2,691</u>	<u>2,828</u>

Shareholders' equity

Capital stock (Note 6)	39,169	24,169
Contributed surplus	2,443	2,531
Retained earnings	53,946	47,462
	<u>95,558</u>	<u>74,162</u>
	<u>\$224,934</u>	<u>\$203,455</u>

Auditors' Report

The Shareholders,
Ivaco Industries Limited.

We have examined the consolidated balance sheet of Ivaco Industries Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. For Ivaco Industries Limited and those subsidiaries of which we are the auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. With respect to those subsidiaries of which we are not the auditors, we have carried out such inquiries and examinations as we considered necessary in order to

accept, for purposes of consolidation, the reports of the other auditors.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.
Chartered Accountants

Montreal, Quebec
March 10, 1978

Consolidated statement of changes in financial position

For the year ended December 31, 1977

	1977 (in thousands)	1976 (in thousands)
Working capital, January 1	\$31,067	\$29,094
Source of funds		
Net earnings	9,765	5,449
Charges to earnings not requiring the current outlay of funds		
Minority interests	306	125
Depreciation and amortization	6,808	6,078
Deferred income taxes	3,486	1,971
Gain on disposal of fixed assets	(274)	(557)
Funds from operations	20,091	13,066
Issue of capital stock		
Preferred shares, Series C	15,000	—
Common shares, on conversion of preferred shares	—	663
	35,091	13,729
Application of funds		
Acquisition of Lockport Felt Division (Note 7)	12,050	—
Less: Working capital acquired thereon	4,102	—
Fixed assets acquired thereon	7,948	—
Net additions to fixed assets	11,723	7,398
Change in investments including transfer in 1977 of marketable securities from current assets	4,803	258
Net decrease in long-term liabilities	1,348	1,298
Conversion of preferred shares into common shares	—	663
Dividends — preferred	909	262
— common	1,715	1,629
Costs relating to issue of preferred shares, Series C	578	—
Acquisition of minority interests	252	—
Increase in deferred pre-production costs	288	116
Other items	162	132
	29,726	11,756
Increase in working capital	5,365	1,973
Working capital, December 31	\$36,432	\$31,067

Consolidated statement of retained earnings

For the year ended December 31, 1977

	1977 (in thousands)	1976 (in thousands)
Balance, January 1	\$47,462	\$44,066
Add: Net earnings	9,765	5,449
	57,227	49,515
Deduct:		
Dividends — preferred	909	262
— common	1,715	1,629
Tax paid to create tax-paid undistributed surplus	79	162
Costs relating to issue of preferred shares, Series C	578	—
	3,281	2,053
Balance, December 31	\$53,946	\$47,462

Consolidated statement of contributed surplus

For the year ended December 31, 1977

	1977 (in thousands)	1976 (in thousands)
Balance, January 1	\$2,531	\$2,531
Deduct: Reduction of government grant	88	—
Balance, December 31	\$2,443	\$2,531

Notes to consolidated financial statements

December 31, 1977

1. Summary of Significant Accounting Policies

The Company follows generally accepted accounting principles in the preparation of its consolidated financial statements and their application is consistent with that of the preceding year.

Basis of Consolidation

Ivaco Industries Limited is incorporated under the laws of Canada. These consolidated financial statements include the accounts of all subsidiary companies, with provision for the interests of minority shareholders. The cost of the investments in subsidiary companies in excess of the net assets at the dates of acquisition, adjusted for subsequent purchases of minority interests, is being amortized on the straight-line basis over a 40 year period. All material inter-company transactions have been eliminated.

Foreign Exchange

Assets and liabilities in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for working capital items and at approximate exchange rates prevailing at the transaction dates for non-current

assets and liabilities. Income and expenses other than depreciation and amortization are translated at average exchange rates prevailing during the year; depreciation and amortization are translated at historic exchange rates.

Inventory Valuation

Inventories are carried at the lower of cost and net realizable value and adequate provision is made for slow-moving and obsolete inventories.

Fixed Assets and Depreciation

Fixed assets are stated at cost and are depreciated on the straight-line basis over their useful lives. The estimated useful lives of the principal classes of fixed assets are:

Buildings	40 years
Steelmaking and rolling mill equipment	25 years
Manufacturing equipment	15 years

Deferred Pre-Production Costs

Certain costs relating to the start-up of new facilities or major plant additions, incurred prior to the commencement of commercial production, are deferred and amortized over periods of up to five years.

2. Inventories

Finished
Semi-finished
Raw materials
Supplies

1977	1976
(in thousands)	(in thousands)
\$22,332	\$19,769
5,269	4,502
33,536	38,492
10,493	9,969
<u>\$71,630</u>	<u>\$72,732</u>

3. Investments

Mortgage and notes receivable
Less: Installments due within one year
included in current assets

Marketable securities, at cost
Common shares of Laclede Steel Company
(market value \$3,282)

1977	1976
(in thousands)	(in thousands)
\$1,032	\$1,255
618	192
414	1,063
5,452	—
<u>\$5,866</u>	<u>\$1,063</u>

4. Sundry Assets

Deferred pre-production costs, less amortization
Patents and licenses, less amortization
Other items

1977	1976
(in thousands)	(in thousands)
\$2,546	\$3,065
210	228
111	164
<u>\$2,867</u>	<u>\$3,457</u>

5. Long-Term Liabilities

	1977 (in thousands)	1976 (in thousands)
First Mortgage Sinking Fund Bonds, Debentures and Mortgages, at interest rates varying from 7% to 10 ¹ / ₂ %, payable in varying installments to 1994	\$10,573	\$11,480
Bank loans, secured by marketable securities, shares of two subsidiaries, accounts receivable, inventories and equipment, at interest rates varying from 9% to prime interest rate plus 2%, payable in varying installments to 1982	12,873	16,025
Bank loans, unsecured, at prime interest rate plus 1 ¹ / ₄ %, payable in varying installments to 1984	8,612	5,743
Deferred accounts and notes payable, at interest rates varying from 5 ³ / ₄ % to prime interest rate plus 3%, payable in varying installments to 1982	7,298	5,665
Loan from directors	—	60
	<u>39,356</u>	<u>38,973</u>
Less: Installments due within one year included in current liabilities	8,518	6,787
	<u>\$30,838</u>	<u>\$32,186</u>

The aggregate amounts of payments due in the years ending December 31, 1979, 1980, 1981 and 1982 are (in thousands) \$8,512, \$6,528, \$5,102 and \$3,578, respectively.

6. Capital Stock

	1977 (in thousands)	1976 (in thousands)
Common shares, no par value:		
Authorized —		
24,000,000 shares of which 12,000,000 have been designated as Class A and 12,000,000 designated as Class B		
Issued and outstanding —		
Class A — 3,681,307 shares		
Class B — 5,289,342 shares		
<u>8,970,649</u> (8,970,623 in 1976)	\$20,149	\$20,149
Preferred shares, par value \$50 each:		
Authorized —		
600,000 shares of which 80,000 have been designated as Series A (none of which are outstanding), 120,000 designated as Series B, and 300,000 designated as Series C		
Issued —		
6% Series B — 89,460 cumulative, convertible, voting shares, of which 80,400 shares (80,408 shares in 1976) are outstanding after exercise of conversion rights	4,020	4,020
8.85% Series C — 300,000 cumulative, redeemable, non-voting shares are outstanding	15,000	—
	<u>\$39,169</u>	<u>\$24,169</u>

The Class A and Class B common shares are voting and are identical except as to dividends. The board of directors may, in declaring cash dividends on Class B common shares, provide for payment of dividends out of tax-paid undistributed surplus on hand or out of 1971 capital surplus on hand, both as defined in the Income Tax Act (Canada); provided that no such

provision may be made unless, contemporaneously with the making of such provision, the board of directors declares a cash dividend on each Class A common share equal to the cash dividend on each Class B common share or, as the case may be, in an amount equal to:

6. Capital Stock (cont'd)

- (i) the amount payable in cash on each Class B common share, plus
- (ii) the amount, if any, of tax to be paid by the Company to create the tax-paid undistributed surplus on hand which is required to pay the cash dividend referred to in sub-paragraph (i) above.

The Series B preferred shares are redeemable after November 1, 1978 at the redemption price of 106% of the par value and are convertible into fully paid and non-assessable common shares on the following basis:

- (i) prior to March 31, 1980 three and one-third common shares for each preferred share.
- (ii) after March 31, 1980 and prior to July 31, 1983 two and one-half common shares for each preferred share.

During the year the Company issued 300,000

8.85% cumulative, redeemable, non-voting preferred shares Series C for cash. The Series C preferred shares rank equally with the 6% preferred shares Series B and may be purchased by the Company on the open market at a premium of up to 6% of the par value prior to July 1, 1982 and thereafter at prices not exceeding the applicable redemption price. Also, the Company will make all reasonable efforts to purchase on the open market for cancellation in each calendar quarter commencing with the quarter beginning October 1, 1978, 3,000 Series C preferred shares at prices not exceeding \$50 per share. The Series C preferred shares may be redeemed on or after July 1, 1982 at a premium of 6% in the first year, decreasing by $\frac{3}{4}$ of 1% for each year commencing thereafter up to and including July 1, 1990, and thereafter without premium.

Under the employees stock option plan the following stock options are outstanding:

	Option Price			Total Options
	<u>\$7.20</u>	<u>\$8.42</u>	<u>\$8.50</u>	
Options outstanding as at January 1, 1977	7,500	5,100	58,000	70,600
Options returned to plan	—	(5,100)	(9,300)	(14,400)
Options outstanding as at December 31, 1977	<u>7,500</u>	<u>—</u>	<u>48,700</u>	<u>56,200</u>

Under the plan an additional 40,000 shares (25,600 shares in 1976) are reserved for issue.

7. Acquisition of Lockport Felt Division

Effective November 1, 1977 the Company acquired the Lockport Felt Division for a total consideration (in thousands) of \$12,050 of which \$4,102 was for working capital and \$7,948 was for fixed assets. The

Company issued \$2,764 of notes payable and obtained a term bank loan in the amount of \$3,300; the balance of \$5,986 was paid from the cash resources of the Company.

8. Directors' and Officers' Remuneration

The number of directors of the Company is 9 (9 in 1976) and their remuneration as directors was \$4 thousand (\$4 thousand in 1976). The number of officers of the Company is 9 (5 in 1976) and their

remuneration as officers was \$855 thousand (\$591 thousand in 1976). The number of officers who are also directors of the Company is 6 (5 in 1976).

9. Anti-Inflation Legislation

The Company and its Canadian subsidiaries are subject to the Canadian Anti-Inflation legislation which became effective October 14, 1975. Management is not aware of any circumstances which would lead them to believe that the Company and its Canadian subsidiaries have not complied

with the restrictions of the legislation. The Canadian government has announced decontrol arrangements whereby controls on prices and profits are expected to end on December 31, 1978 and controls on wages and dividends are expected to end on various dates during 1978.

Manufacturing Plants

Eastern Steelcasting	L'Orignal, Ontario
Industrial Fasteners Ltd.	Marieville, Quebec
Infatool Ltd.	Ingersoll, Ontario
Ingersoll Fasteners	Ingersoll, Ontario
Ingersoll Machine	
and Tool Company, Limited	Ingersoll, Ontario
Ivaco Rolling Mills	L'Orignal, Ontario
Lockport Felt Division	
Niagara Lockport	Burt, New York
Niagara Lockport	Newfane, New York
Niagara Lockport	Starkville, Mississippi
Niagara Lockport Quebec	Warwick, Quebec
New York Wire Mills Corp.	Tonawanda, New York
Niagara Quebec	Trois-Rivières, Quebec
Niagara Wires	Quincy, Florida
Sivaco Maritimes Limited	Dartmouth, Nova Scotia
Sivaco Ontario Ltd.	Ingersoll, Ontario
Sivaco Wire & Nail Company	Marieville, Quebec
Virginia Wire and Fabric	Warrenton, Virginia

Where our Products are Manufactured

Steel Billets	L'Orignal, Ontario	Nails	Dartmouth, Nova Scotia
Wire Rod	L'Orignal, Ontario		Marieville, Quebec
Wire	Dartmouth, Nova Scotia		Tonawanda, New York
	Ingersoll, Ontario		Warrenton, Virginia
	Marieville, Quebec	Bolts, Nuts and	
	Tonawanda, New York	Fastener Products	Ingersoll, Ontario
	Warrenton, Virginia		Marieville, Quebec
Oil Tempered Spring Wire	Tonawanda, New York	Precision Machined	
Galvanized Wire	Marieville, Quebec	Components and Axles	Ingersoll, Ontario
Welded Wire Fabric	Marieville, Quebec	Fourdrinier Fabric	Quincy, Florida
	Tonawanda, New York		Trois-Rivières, Quebec
	Warrenton, Virginia	Wet Felts	Burt, New York
Barbed Wire,			Newfane, New York
and Fencing Products	Marieville, Quebec		Starkville, Mississippi
			Warwick, Quebec
		Dryer Felts	Starkville, Mississippi
			Warwick, Quebec

Warehouses and Sales Offices

St. John's, Newfoundland
Moncton, New Brunswick
Toronto, Ontario
Ingersoll, Ontario
Winnipeg, Manitoba
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

Si vous désirez recevoir un exemplaire français de ce rapport veuillez en aviser le Secrétaire de la Compagnie en écrivant à Les Industries Ivaco Limitée, 800 rue Ouellette, Marieville, Québec.

